



FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY®

The U.S. Macroeconomy

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Wine and Spirits Wholesalers of America

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Disclaimer

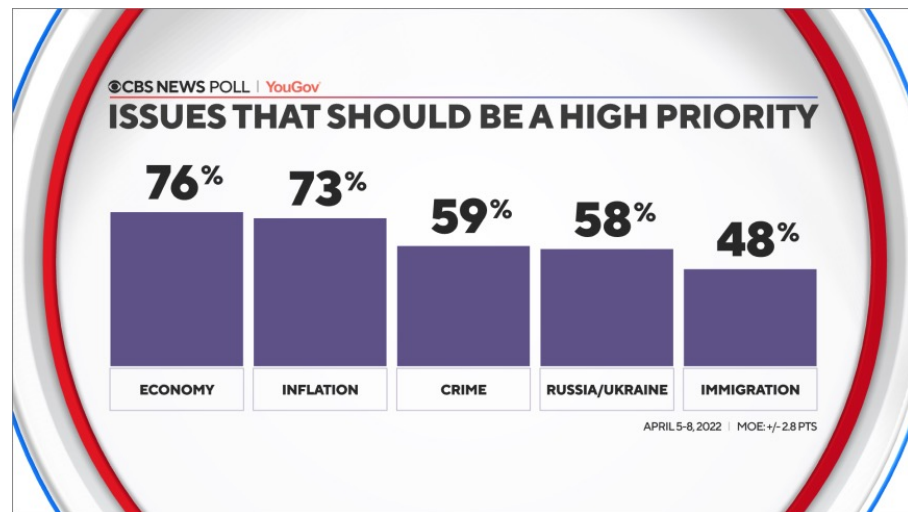
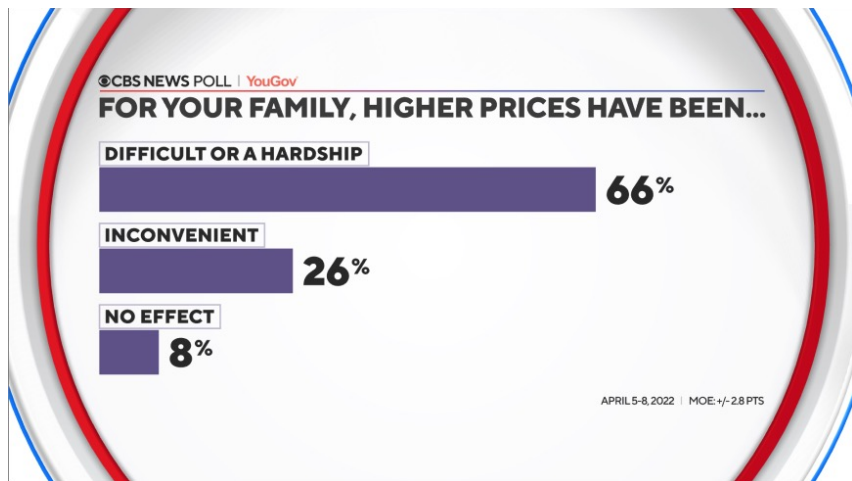
The views I will express today are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

Outline

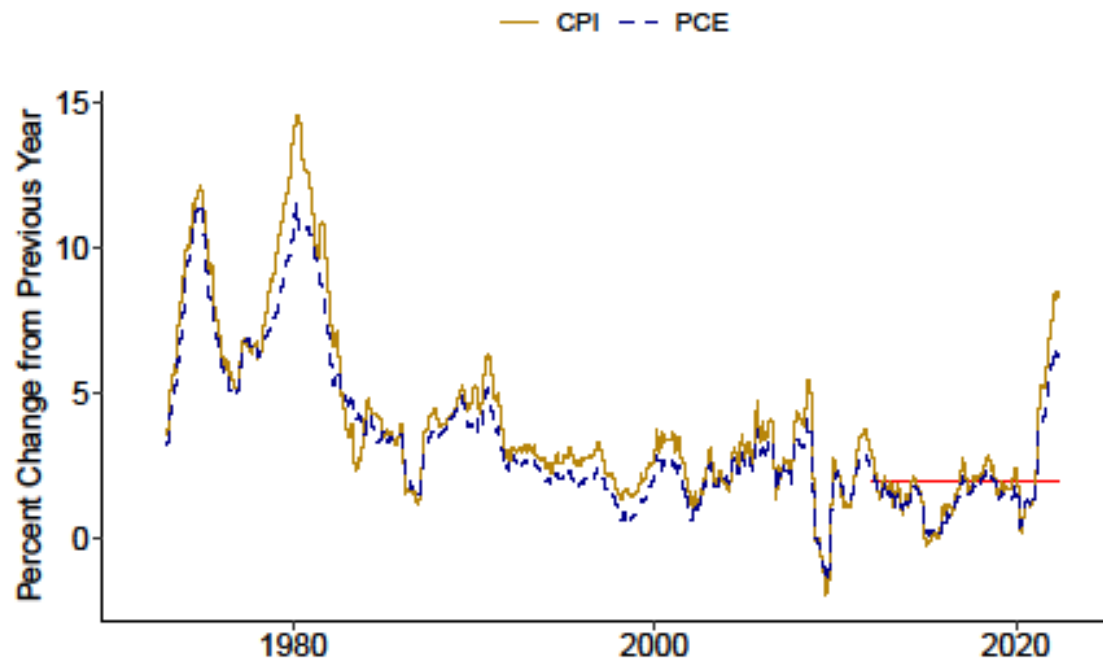
- Inflation: present and past
- The Federal Reserve and tightening cycles
- Macroeconomic outlook
- Discretionary consumer spending and inflation

Inflation: present and past

Americans: Unhappy About Inflation



Two measures of inflation

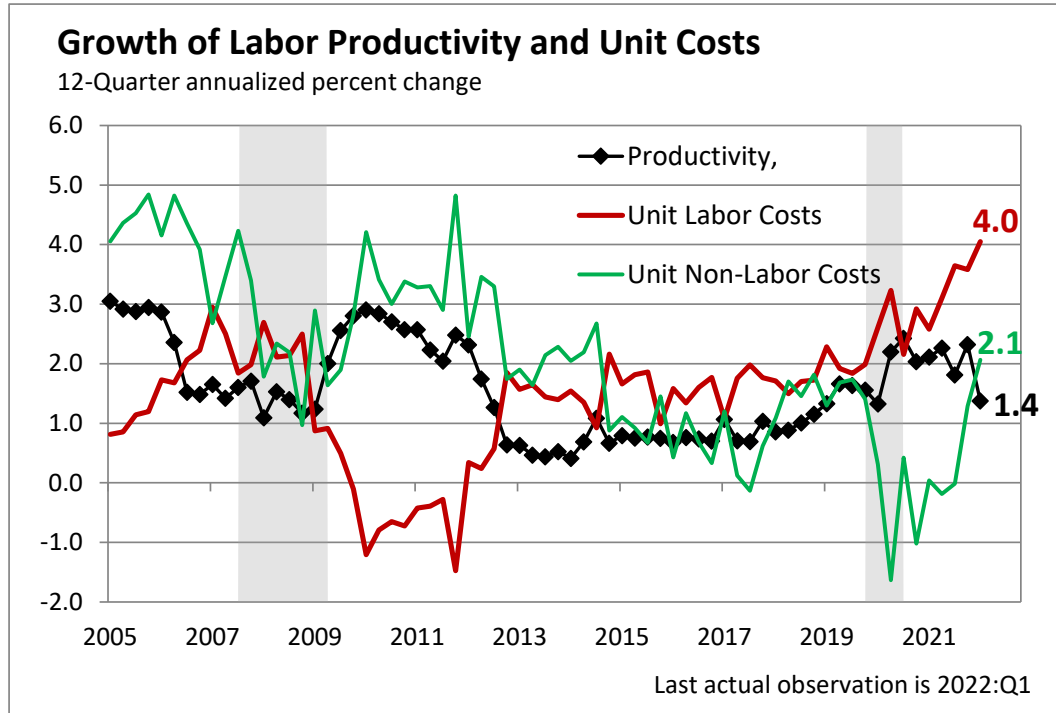


Both measures are nearing levels not seen since the early 1980s.

Elevated inflation is not due solely to gas and food price increases.

Red line: The Federal Reserve adopted a 2 percent explicit inflation target (PCE).

Cost pressures influence inflation



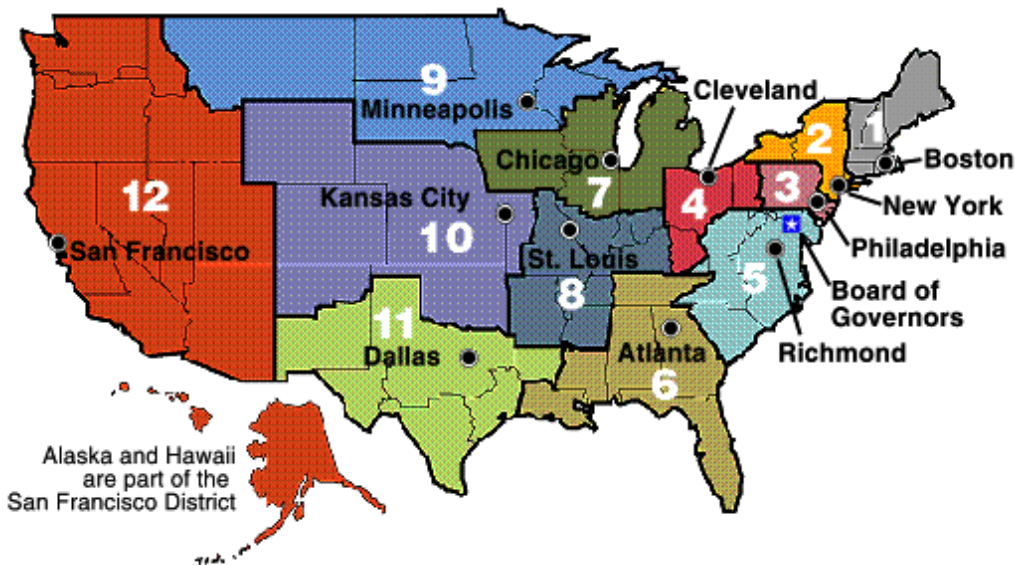
Increased labor costs are one key drivers of inflation now

Productivity measures output per worker

Labor costs growth is outpacing productivity growth

The Fed and Tightening Cycles

Monetary policy and the Federal Reserve

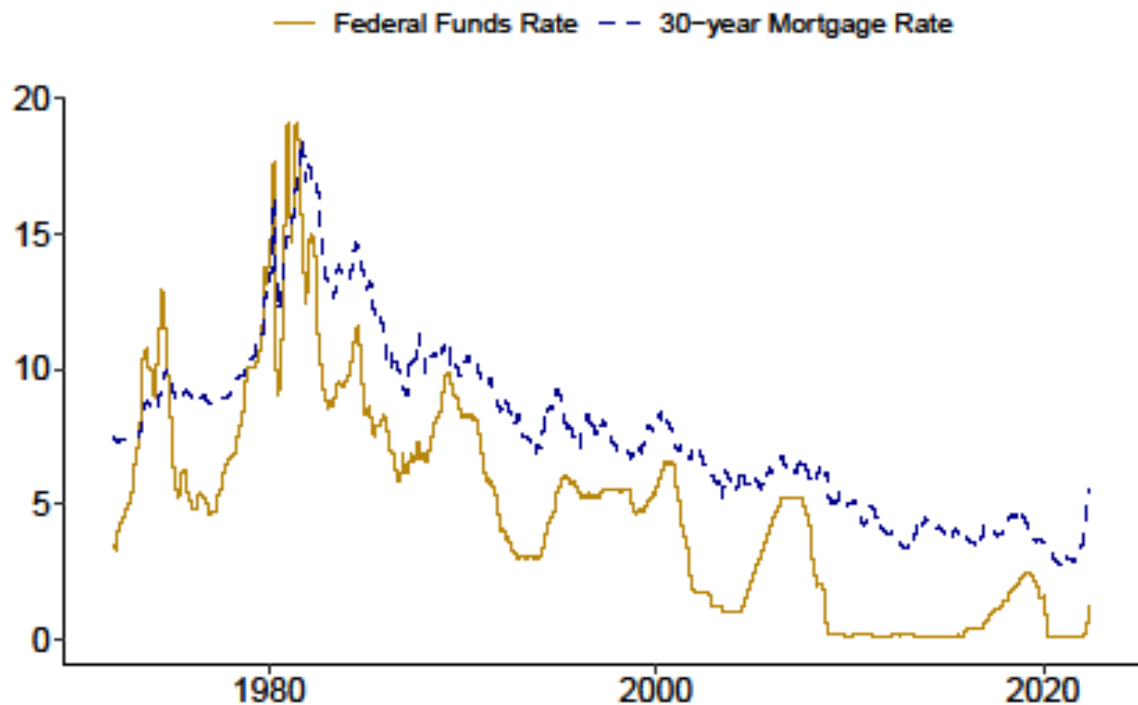


Federal Open Market Committee (FOMC) holds eight meetings per year to set a target for the federal funds rate.

FOMC consists of Fed governors and 5 of the Federal Reserve Bank presidents.

The Federal Reserve Act instructs the FOMC to promote “maximum employment” and “stable prices”

The Fed Responds

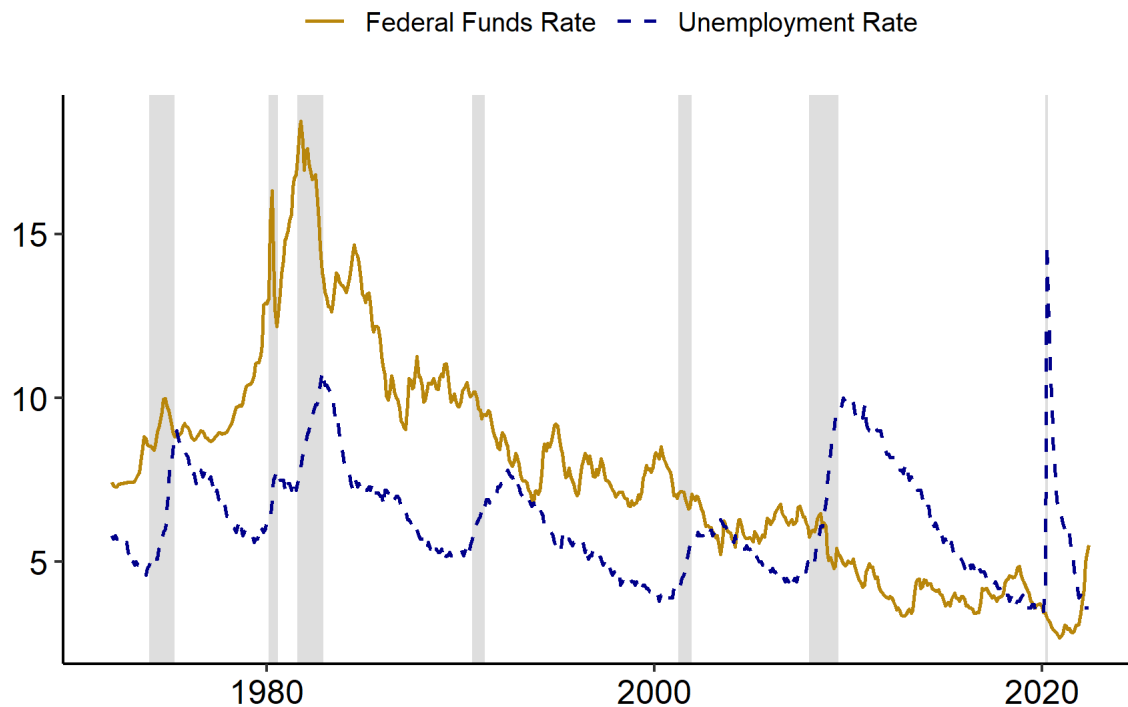


Federal funds rate is the primary monetary policy tool in the U.S.

Since early Spring of this year, FOMC has raised the rate from about zero to the range 1.25 to 1.5%, anticipating further increases are possible.

An episode of an increasing federal funds rate is called a *tightening cycle*.

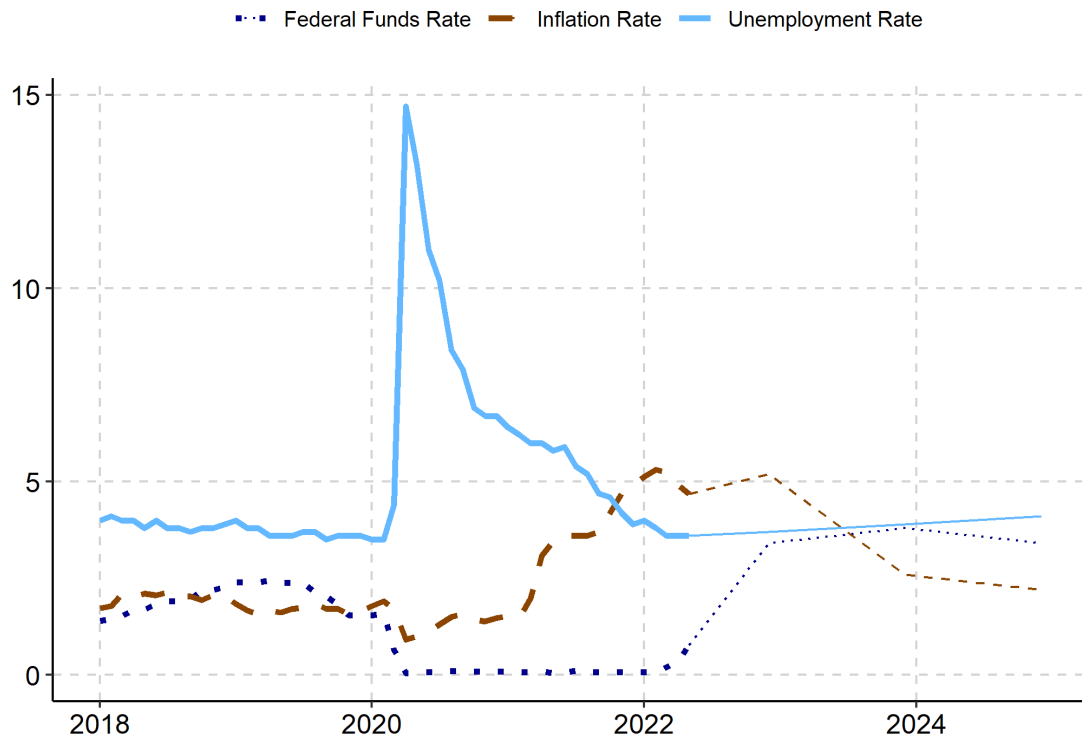
Unemployment and tightening cycles



The largest tightening cycle in post-WWII history (the Volcker disinflation) was also associated with one of the worst recessions.

Macroeconomic Outlook

Summary of Economic Projections

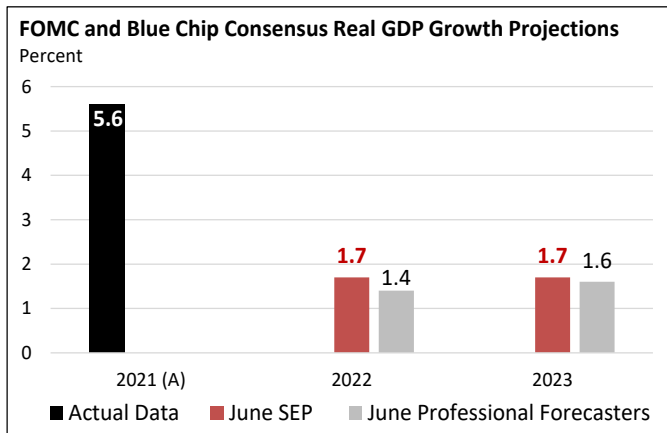


Quarterly, a set of top Fed officials submit individual projections for end of year (several years out) for several macro variables.

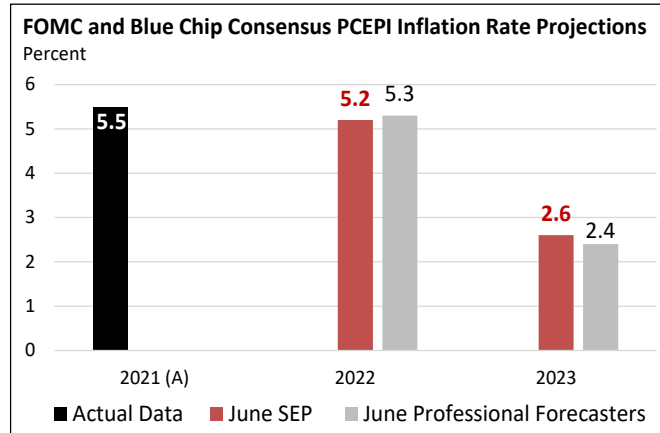
Dotted lines reflect the median of those projections.

Fed & private forecasts for 2022-2003

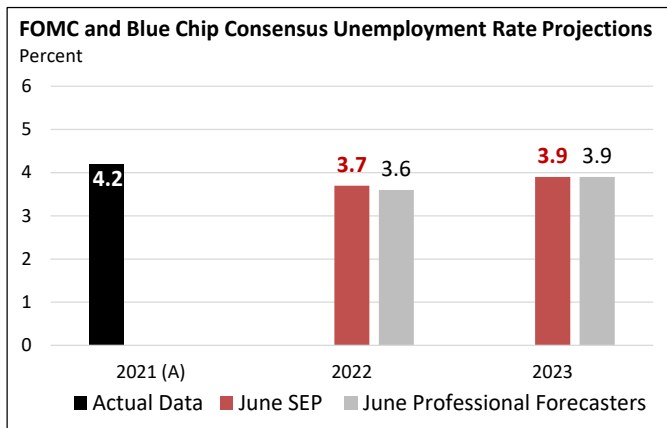
Real
GDP



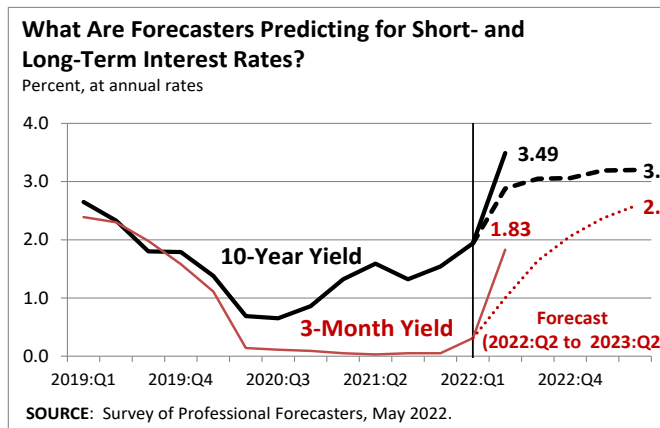
Inflation



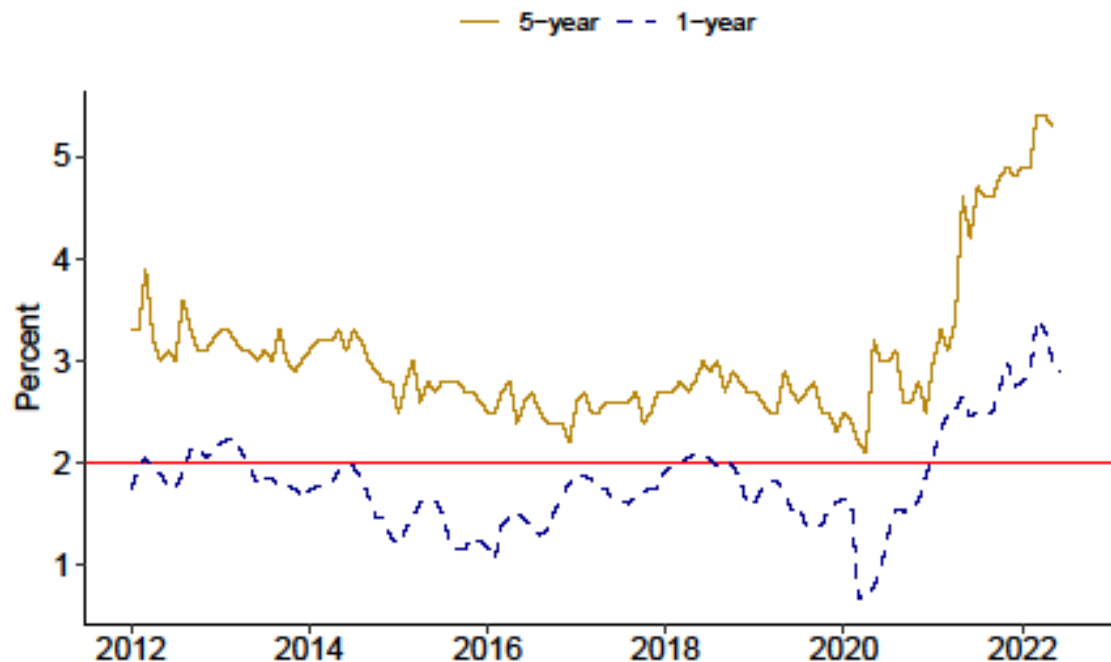
Unemp.
Rate



Interest
Rates



Measures of Inflation Expectations

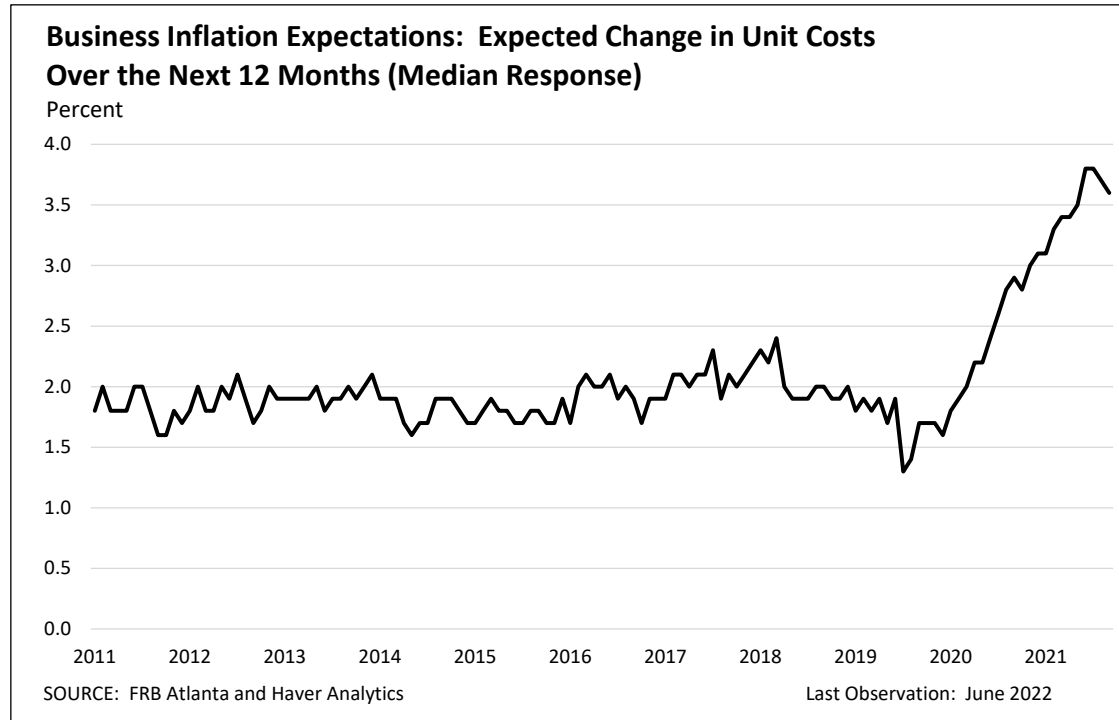


Consumer expectations of inflation over the next 5 years (yellow line, survey based)

Financial market expectation of inflation over the next year (blue line, measured from financial market data)

Both series are elevated relative to their historical averages.

Measures of cost inflation expectations



Just as with consumer price inflation, business cost inflation expectations are increasing.

Discretionary Consumer Spending & Inflation

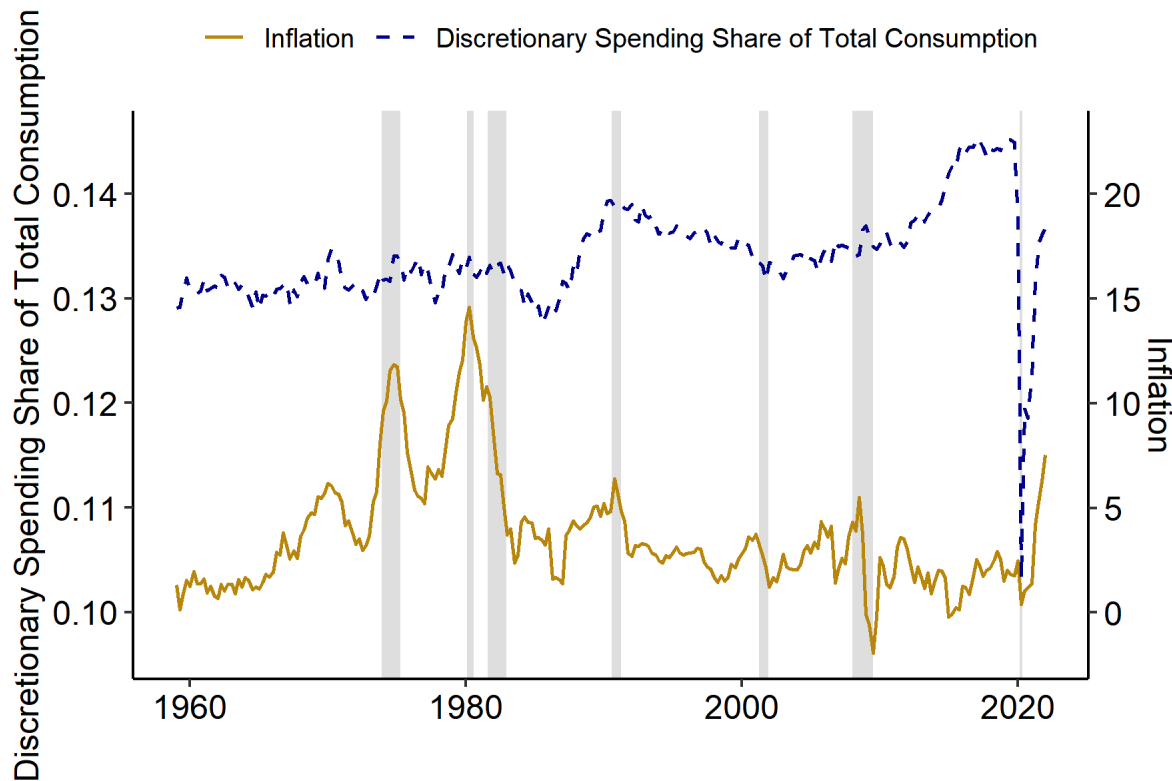
We see inflation hit discretionary spending already

A Morning Consult study reported that from Feb to Mar 2022, spending fell by:

- 9% on hotels
- 15% on alcohol and airfare
- 21% on recreation

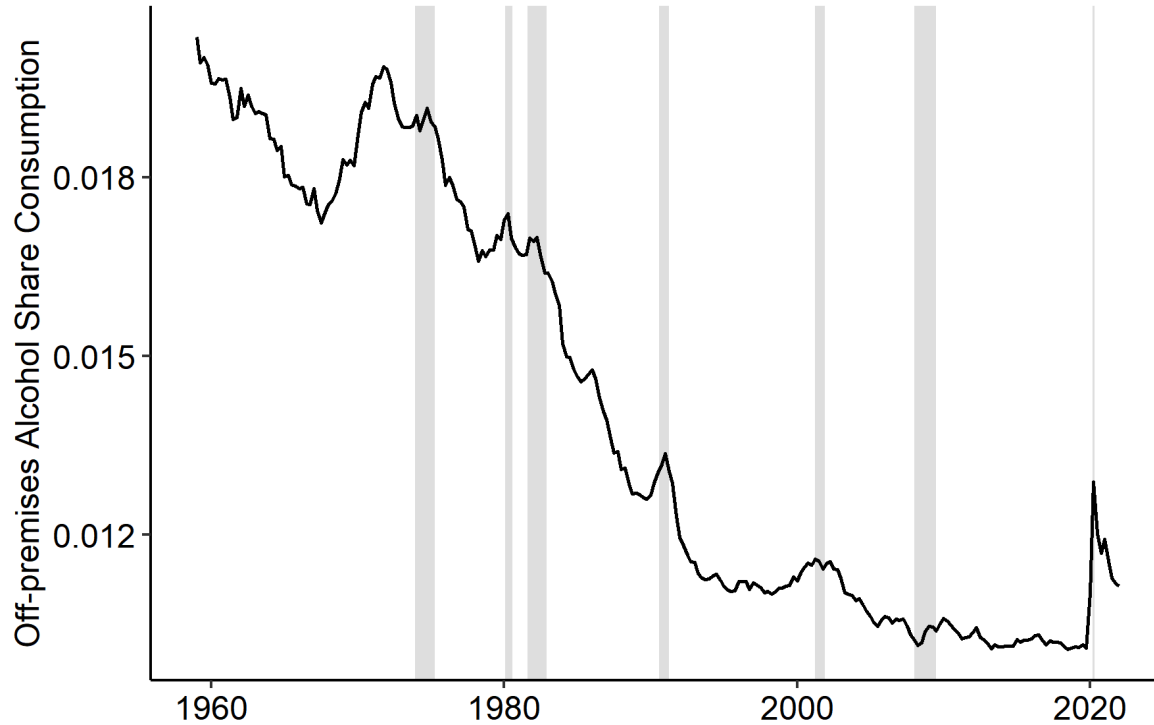
What about inflation and discretionary spending before this most recent bout?

Discretionary spending as share of all consumption spending



Is there much systematic expenditure switching away from discretionary spending during inflationary episodes?

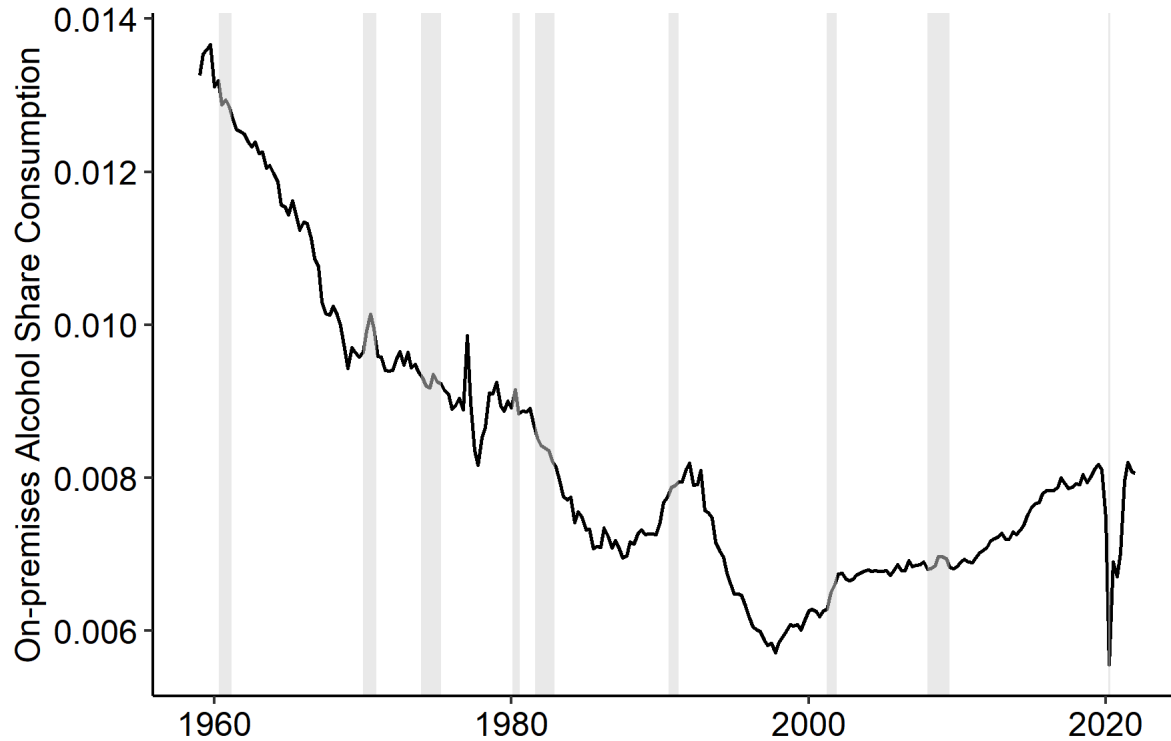
Alcohol as share of total consumption spending



Alcohol consumption as a share of total consumption.

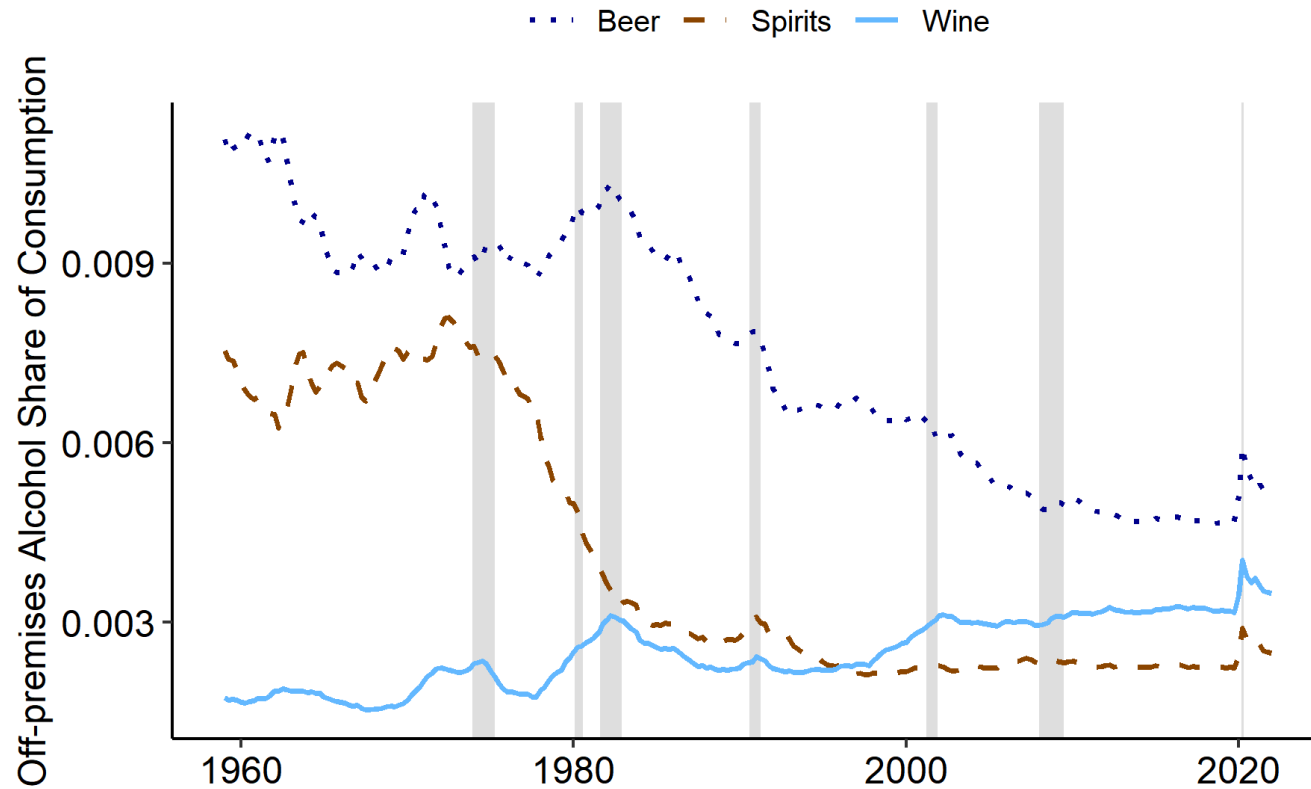
Recession episodes are shaded in grey

Alcohol as share of total consumption spending



Alcohol consumption as a share of total consumption.

Recession episodes are shaded in grey



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Macro Snapshot presents important macroeconomic indicators closely followed by the St. Louis Fed to gauge the current state of the economy and appropriate policy.

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